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January 13, 2005

VIA HAND DELIVERY

Mr. Charles Terreni
Chief Clerk of the Commission
SC Public Service Commission
P. O. Drawer 11649
Columbia, SC 29211

RE: Application of Bush River Utilities, Inc., for approval of a
New Schedule of Rates and Charges for Sewage Service provided
to Residential and Commercial Customers in all areas served.
Docket No.: 2004-259-S

Dear Mr. Terreni:

Enclosed please find the original and twenty-five (25) copies of the **Rebuttal Testimony of Keith G. Parnell** and the original and twenty-five (25) copies of the **Rebuttal Testimony of Charles K. (Ken) Parnell** filed on behalf of Bush River Utilities, Inc. in the above referenced docket. By copy of this letter, I am serving all parties of record.

I have enclosed an extra copy of this testimony which I would ask you to date stamp and return to me by my courier.

If you have questions or need additional information, please do not hesitate to contact me.

Sincerely,

Elliott & Elliott, P.A.


Scott Elliott

SE/jcl

Enclosures

c: All parties of records w/enc.

ORIGINAL

**THE PUBLIC SERVICE COMMISSION
OF
SOUTH CAROLINA**

DOCKET No.: 2004-259-S

**Application of Bush River Utilities, Inc. for
Approval of New Schedule of Rates and Charges
for Sewage Service provided to Residential, Commercial
and Wholesale Customers in all areas served.**

PREFILED REBUTTAL TESTIMONY

OF

KEITH G. PARNELL

January 13, 2005

RETURN DATE: _____

SERVICE: _____

REBUTTAL TESTIMONY OF
KEITH G. PARNELL
FOR
BUSH RIVER UTILITIES, INC.

DOCKET NO. 2004-259-S

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Q. Please state your name, business address and your affiliation with the applicant Bush River Utilities, Inc. (Bush River)

A. Keith G. Parnell, P. O. Box 258, Lexington, South Carolina 29072. I am the President and Operations Manager for Bush River. I am also Operations Manager for Development Service, Inc. and Midlands Utility, Inc., respectively.

Q. Mr. Parnell, what is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to clarify certain misconceptions that the Office of Regulatory Staff, particularly Dawn M. Hipp and Roy Barnett, hold concerning our rate application and operations. My brother and co-owner Ken Parnell of Bush River will explain more fully the construction of the upgrades necessary to Bush River's wastewater treatment facilities. Ken is an experienced engineer and will respond to the testimony of ORS staff auditor Willie J. Morgan.

Q. Please describe those matters testified to by Ms. Hipp which need clarification relative to Bush River's operations.

A. Primarily, while it appears that Ms. Hipp is an accomplished account receivable auditor, her work experience has been that of an employee for large diverse companies. Her analysis that "potential" savings will occur if mergers of our three companies occur simply is conjecture. A merger will simplify management and eliminate inter-company borrowing. We have every intention of merging the three companies when the legal, tax and business decisions permit it.

1 **Q. Why do you think the potential cost savings estimated by Ms. Hipp are high**
2 **in the event your companies merge?**

3 A. Our companies are three small privately owned sewerage utilities. We do not
4 have administrative departments, human resource departments, payroll departments and
5 other divisions which obviously create savings when mergers of large companies occur.

6 **Q. Would the number of your employees change?**

7 A. No.

8 **Q. Mr. Parnell, what response would you have to the testimony of Ms. Hipp that**
9 **your complaint records have not been maintained?**

10 A. Ms. Hipp is incorrect. We maintain a telephone log with every complaint
11 maintained in the telephone message book. We maintain logbooks for every service call
12 made, including what service was provided and type of complaint.

13 **Q. Why does Ms. Hipp insist that your bill forms lack an after-hours emergency**
14 **number as required by 26 S.C. Code Regs. 103-532.1(d)?**

15 A. The bill form in place for each of our companies has a telephone number which is
16 answered 24 hours a day, 7 days a week. We use an after hours answering service for
17 calls at other than business hours and the on-duty repairman is notified immediately to
18 make the necessary service call. Our customers are always able to call us with problems
19 when an emergency exists.

20 **Q. Does your bill form comply with regulations testified to by Ms. Hipp?**

21 A. We have submitted our bill forms to the PSC Staff on request and when required
22 for rate or application approval. If there is now a problem, we will correct the form.

1 **Q. Ms. Hipp suggests that your business should be structured with multiple**
2 **plans. Do you agree?**

3 A. First, Ms. Hipp suggests that we do not have a business plan. To the contrary,
4 Bush River and DSI have entered into a comprehensive loan agreement with a South
5 Carolina bank to provide financing sufficient to build out our operations. To meet the
6 requirements of bank financing, we undertook appraisal of all assets, identification of all
7 liabilities, contemporary surveys of the property to be upgraded, clear title and title
8 insurance on all properties, all of which are business initiatives that we have been
9 planning and will be structured into one business plan after the upgrades are complete.
10 Moreover, the consent orders were negotiated contemporaneously and envision system-
11 wide upgrades. However, the ORS objects to the loan and the construction of the Bush
12 River upgrade as not being known and measurable. The ORS would seem to prefer a
13 written plan, prepared in the abstract, consistent with academic principles. While we are
14 perfectly willing to prepare such a study if that be the will of this Commission, our
15 circumstances required us to deal with the immediate concerns of constructing the Bush
16 River upgrade and obtaining a means of paying for the upgrade.

17 **Q. Mr. Parnell, Ms. Hipp suggests that Bush River and its owners do not have**
18 **sufficient bond and surety.**

19 A. We renewed and filed the bonds as required by the PSC Staff prior to bringing our
20 application. Actually I do not know where we could get a bond and surety written as
21 suggested by ORS. The cost is probably prohibitive. My brother and I have pledged our
22 total assets to the completion of the upgrades and can not and will not walk away from
23 these companies. We can offer no better surety to our customers. The upgrades, when

1 completed, will increase the asset value of our companies and all of the assets of the three
2 companies will stand to repay the amounts borrowed.

3 **Q. Mr. Parnell, are the costs of the requested tap fees known and measurable?**

4 A. Yes. All of the opportunity to obtain proper cost justification, including labor
5 costs, material costs and miscellaneous costs were available to the ORS auditors. In
6 addition, we are confident the necessity to increase the tap fee for the recapture of plant
7 investment is justified and is of benefit to our existing customers. We have not increased
8 our tap fees since 1996.

9 **Q. Mr. Parnell, does your system of accounting differ from that of the NARUC**
10 **system accounting?**

11 A. I understand from our CPA, Mr. Heyward Addy that while our accounting system
12 is similar to the guidelines set out by NARUC, there are differences with respect to
13 description of charts of account and depreciation schedules. Nevertheless, our
14 accounting methodology is not foreign to the principles suggested by Ms. Hipp for those
15 knowledgeable in accounting terminology. The NARUC schedules of depreciation are
16 obsolete since they are based upon circumstance and environmental laws existing in
17 1970.

18 **Q. Ms. Hipp indicates in the last paragraph of her exhibit marked DMH-2 page**
19 **1 of 3 that "The Company provides adequate wastewater service, but there are**
20 **problems with their management. What is your response?**

21 A. We appreciate Ms. Hipp's view that Bush River provides adequate wastewater
22 service. We believe that providing adequate service is the best evidence of our
23 management capability.

1 **Q. Mr. Parnell, what happens if rates are not sufficient to produce the adequate**
2 **operating margin to pay for the upgrades and service bank debt?**

3 A. Ms. Hipp has indicated in her testimony that the audit department calculated a
4 resulting operating margin after adjustments of 22.65%. If that is the operating margin
5 after all of the proposed ORS adjustments, we will simply be unable to get the necessary
6 financing and finish required construction. We were trying to hold rates down during
7 construction at a level to benefit our customers. We must get sufficient rate increases to
8 provide revenue that bridges the construction and supports the known and measurable
9 costs we have provided in our application, testimony and exhibits.

10 **Q. Mr. Parnell, do you have a response to any of the direct testimony given by**
11 **Mr. Roy Barnette of the ORS audit staff.**

12 A. Yes. Actually, we think Mr. Barnette is a very accomplished and pragmatic
13 auditor. Independent of his capabilities, we do not agree with all of the adjustments in his
14 report. Many of the adjustments deny necessary revenue which is known and measurable.
15 For instance, requiring Bush River to amortize its rate expenses for this filing over five
16 years rather than three years is unfair and unrealistic. Obviously the five years penalizes
17 the company for not seeking rate increases more often. Moreover, the one stage rate
18 increase recommended by ORS would require us to file a rate increase application in less
19 than three years. Furthermore, in spite of the fact that we have fully cooperated with the
20 ORS and have provided it with the documentation it has requested, ORS Staff has made
21 many judgments disallowing cost recoveries for lack of justification. Moreover, much
22 has been said through testimony recommending that our three utilities should be merged.
23 In point of fact, we have assigned and allocated equipment and costs internally as if

1 merged; however, according to Mr. Barnette's report many items are repeatedly adjusted
2 and disallowed as inappropriate with resulting adjustments.

3 **Q. Generally, what are the major problems with the adjustments shown?**

4 A. The ORS Staff appears to make adjustments and disallowances according to
5 NARUC and other guidelines which do not constitute law but rather call for judgment as
6 to appropriate expenses, cost and allocations. These adjustments deprive us of sufficient
7 revenue. The rates which we have requested are documented with known and
8 measurable evidence. Bush River requires substantial rate increases and a resulting
9 operating margin substantially above that shown by Mr. Barnette's testimony and
10 exhibits.

11 **Q. Mr. Parnell, is the operating margin required by the requested two stage rate**
12 **increases reasonable?**

13 A. Yes. Bush River has not been before the Commission for a rate increase since our
14 rate filing in 1994. We are obligated to upgrade Bush River's plant and facilities under a
15 legal consent order with DHEC. When we filed this rate case we studied the operating
16 margins and rates granted by this Commission from 1991 through 2004 for Water and
17 Wastewater companies. We concluded that the reasonableness of an operating margin is
18 not whether it is low or high but is dependent upon the facts of each rate case. For
19 instance this Commission has granted rate increases with operating margins above 30%,
20 eight times during the last thirteen years. One recent case in 2004 resulted in an order
21 granting a three stage rate increase with a resulting increase in operating margin of 145%.
22 The key to the decision of the Commission was to provide adequate rates which would be
23 fair and reasonable within the law.

1 **Q. Mr. Parnell, the ORS recommends a 22.65% operating margin. Is this**
2 **sufficient to sustain the cost that Bush River will experience?**

3 A. No. Considering the adjustments and the 22.65% operating margin computed by
4 the ORS, we will be unable to meet our obligations for the project upgrades. Bush
5 River's requested rates are appropriate and Bush River will require an operating margin
6 sufficient to permit it to pay the construction costs, measurable interest required and
7 known outlays and permit it to operate successfully for the benefit of its customers.

8 **Q. Does this complete your pre-filed rebuttal testimony?**

9 A. Yes.

THE PUBLIC SERVICE COMMISSION

OF

SOUTH CAROLINA

DOCKET No.: 2004-259-S

**Application of Bush River Utilities, Inc. for
Approval of New Schedule of Rates and Charges
for Sewage Service provided to Residential, Commercial
and Wholesale Customers in all areas served.**

PREFILED REBUTTAL TESTIMONY

OF

CHARLES K. (KEN) PARNELL

January 13, 2005

RETURN DATE: _____
SERVICE: _____

REBUTTAL TESTIMONY OF
CHARLES K. (KEN) PARNELL
FOR
BUSH RIVER UTILITIES, INC.

DOCKET NO. 2004-259-S

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Q. Please state your name, business address and occupation.

A. My name is Charles K. Parnell. My business address is 1432 Sunset Boulevard,
West Columbia, SC 29169.

Q. Please provide your educational background and work experience.

A. I graduated in 1978 with a Bachelor of Science in Engineering from the
University of South Carolina. I obtained my Master of Engineering from the University
of South Carolina in 1995. I am a registered professional engineer (South Carolina
Registration No. 9406). My professional affiliations are as a member of the American
Water Works Association (AWWA) and the South Carolina Section of American Water
Works Association (SCAWWA). Since 1994 I have been employed by HPG and
Company, Consulting Engineers. My present position is President of the firm with
responsibilities including the engineering design and management of all firm projects.
From 1980 to 1994, I was employed as an engineer for B.P. Barber and Associates, Inc.
From 1979 to 1980, I was employed as an engineer for Wilbur Smith & Associates. From
1978 to 1979, I was employed by the South Carolina Department of Health and
Environmental Control. I am Vice-President of Bush River Utilities, Inc.

Q. What is the principal business of HPG and Company?

A. We engineer, design and manage water and wastewater treatment, water
distribution, pumping and storage, wastewater collection, pump stations and force main
projects for our clients. Our clients have included municipalities and counties such as the

1 Town of Eastover, Kershaw County, the Calhoun County Industrial Park, the Greenwood
2 Commission of Public Works and the Beaufort Jasper Water Treatment Authority.

3 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

4 A. First let me say that with my brother Keith Parnell, I am half owner of Bush River
5 Utilities, Development Service, Inc. and Midlands Utility, Inc. In addition Keith and I
6 provide the engineering expertise for our companies and where necessary, we rely on the
7 full range of expertise of HPG and Company. Against that backdrop, my rebuttal
8 testimony will address the direct testimony of ORS staff member Willie J. Morgan.

9 **Q. Why do you recommend the Sequencing Batch Reactor as the appropriate**
10 **treatment facility for Bush River?**

11 A. The sequencing batch reactor (SBR) produces a high quality effluent and has a
12 lower capital cost compared to other conventional actuated sludge processes. An SBR
13 uses one basin for mix reaction and clarification of the wastewater. In addition, its
14 forgiving operation and maintenance requirements simplify its use and repairs. Lastly, it
15 is a safer operating process. However, the primary decision for selecting an SBR is the
16 fact that nutrient limits will be imposed on discharges to the Saluda River such as Bush
17 River. An SBR provides excellent biological removal of nutrients thus avoiding costly
18 physical, chemical processes.

19 **Q. Why is a 20 year depreciation schedule appropriate for Bush River?**

20 A. Equipment should have a useful life of no more than 20 years. Although a facility
21 may have a structure which could last for 32 years, there is no reason to believe that in a
22 wastewater treatment process, the equipment itself could last for 32 years. The reason for
23 this would be that the equipment requires severe duty. Discharge limits are expected to

1 become more stringent. As a result, the equipment may not effectively treat to these
2 lower levels requiring the purchase and construction of new equipment before the
3 original equipment can be fully depreciated. In today's ever-changing regulatory
4 atmosphere, anything greater than 20 years is speculative.

5 **Q. Mr. Parnell, would you please respond to the comments in Mr. Morgan's**
6 **testimony concerning Bush Rivers' lagoon?**

7 A. While Mr. Morgan appears well meaning, his analysis is academic at best. Mr.
8 Morgan mistakenly confuses the plant growth near the baffle wall in the treatment lagoon
9 as sludge; in reality it is a surface accumulation of grease. If the sludge accumulation he
10 suggests actually existed in the basins, treatment would not be possible. Since sludge
11 accumulation affects treatment process operations, we dredge and de-water on a daily
12 basis. Mr. Morgan offers no sludge measurements to sustain his testimony and he is in
13 fact mistaken. The reason this facility has compliance issues is primarily because the
14 lagoon system is shallow. The lagoon has an average depth of from 6 to 8 feet. During
15 the cold months of the year water temperatures drop. This causes the bacteria activity to
16 also drop. As a result, BOD5 removal is reduced. Warming waters during late spring
17 and early summer provide recovery, however too late to save us from permit violations.

18 **Q. Please briefly address other issues raised by Mr. Morgan resulting from his**
19 **inspection of the lagoon.**

20 A. Frequent inspection would reveal that we routinely remove debris which
21 sometimes falls to the ground as the trash dumpster is emptied by the contractor's
22 garbage truck. Second, we are waiting to finish construction upgrades to avoid any
23 unnecessary repairs to the road leading to the lagoon which would be caused by heavy

1 equipment during construction. The road remains passable. Last, the lagoon dikes do not
2 leak and the concrete masonry unit has no structural importance.

3 **Q. Mr. Parnell, please respond to the allegations of Mr. Morgan regarding**
4 **negotiations with other providers and cost impact studies.**

5 A. We negotiated with both the City of Columbia and the City of West Columbia to
6 see if regional sewer providers could treat Bush River's effluent. Neither city has the
7 capacity nor the wholesale rate structure to provide wholesale treatment to privately
8 owned public wastewater treatment systems such as Bush River. Actually, we have no
9 other viable alternatives beyond our proposal, since regardless of hypothetical "cost" and
10 conjecture, treatment by a regional provider is not an option. We apprised DHEC that no
11 regional provider is available and consequently DHEC approved our PER to upgrade by
12 the constructing of a sequencing batch reactor.

13 **Q. What response do you have to Mr. Morgan's assertion in his direct testimony**
14 **concerning disinfection and other implied technical treatment problems?**

15 A. The high quality of treatment provided by a sequencing batch reactor permits the
16 use of Ultraviolet (UV) disinfection. We are fundamentally aware that total suspended
17 solids (TSS) can affect UV disinfection efficiency. When used with the highly
18 effectively sequencing batch reactor, ultraviolet disinfection will prove effective.
19 Moreover, the use of chlorine gas is very dangerous as well evidenced by the headlines in
20 today's papers. Given the location of our plant to the recreational use of the Saluda River
21 and commercial establishments, our decision to opt for the safer use of ultraviolet
22 disinfection is very appropriate and lessens substantially the liability for chlorine
23 accidents. We will not consider the use of chlorine gas.

1 **Q. Mr. Morgan suggests that cost savings could be obtained by using an open**
2 **bidding process. Do you agree?**

3 A. His assertion is simply not fitting to the facts. During the course of our
4 engineering this project, we did solicit competing price quotes for equipment and
5 structures from various suppliers and contractors. We selected the most cost effective.
6 Those knowledgeable in our business know that this work can only be done by properly
7 licensed contractors. Contractors add overhead and profit on all costs including
8 equipment. We have not added overhead and profit to our own costs. Prime contractors
9 subcontract trades and project work. This includes the steel tankage, foundations and
10 electrical subcontracting. The prime contractor normally adds overhead and profit to the
11 subcontractor's cost. Accordingly, given our own abilities and expertise to manage and
12 carry out the necessary project, it would be unreasonable for our small private companies
13 to be required to bid our projects and purchases. Because a prime contractor's bid to
14 construct the upgrade would of necessity be more expensive than our cost, we would be
15 asking for higher rates in reality if Mr. Morgan's suggestions were required.

16 **Q. Mr. Parnell does this complete your rebuttal testimony?**

17 A. Yes.

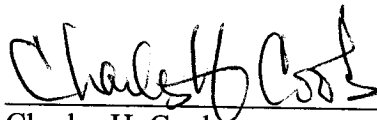
CERTIFICATE OF SERVICE

The undersigned Charles H. Cook, of Counsel of Elliott & Elliott, P.A. does hereby certify that he has served below listed parties with a copy of Rebuttal Testimony of Keith G. Parnell and a copy of Rebuttal Testimony of Charles K. (Ken) Parnell on behalf of Bush River Utilities, Inc., indicated below by hand delivery on the date indicated below:

RE: Application of Bush River Utilities, Inc., for approval of new schedule of rates and charges for sewage service provided to residential and commercial customers in all areas served.
Docket No. 2004-259-S

PARTIES SERVED: Florence P. Belser, Esquire
 ORS
 1441 Main Street, Ste. 300
 Columbia, SC 29211

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2005 JAN 13 PM 4:18
SC
COMMISSIONER



Charles H. Cook

January 13, 2005